

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

General Information

Legal form of entity	Local Municipality
Mayor	Cllr B Ngcongo
Deputy Mayor	Cllr BE Dlamini
Councillors	Cllr A Ragavaloo (Speaker) SJ Mchunu TC Madonda BM Mngadi ZS Msomi BA Mchunu DR Phoswa PL Shange MJ Shelembe WT Tshelembe MP Vesi
Grading of local authority	Grade 4
Accounting Officer	Mr ES Sithole
Chief Finance Officer (CFO)	Mr WC Donnelly
Registered office	Memorial Hall 57 Shepstone Street RICHMOND 3780
Postal address	Private Bag x1028 Richmond 3780
Bankers	First National Bank
Auditors	Auditor General (SA)
Attorneys	Venn Nemeth & Hart

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the annual financial statements.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is dependent on the grants and subsidies and internal funding for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 60, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

Accounting Officer

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Statement of Financial Position

	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	11	112 762	103 300
Other financial assets	7	12 367	23 744
Trade and other receivables from exchange transactions	12	205 390	31 842
Other receivables from non-exchange transactions	13	3 187 453	3 539 145
VAT receivable	14	1 879 841	297 477
Consumer debtors	15	4 279 221	2 663 038
Cash and cash equivalents	16	43 363 732	24 108 511
		53 040 766	30 767 057
Non-Current Assets			
Property, plant and equipment	4	61 675 604	47 080 836
Intangible assets	5	26 816	39 360
Other financial assets	7	82 542	94 910
		61 784 962	47 215 106
Non-current assets held for sale	6	1 157 627	-
Total Assets		115 983 355	77 982 163
Liabilities			
Current Liabilities			
Other financial liabilities	19	12 367	23 744
Operating lease liability	9	106 398	106 398
Trade and other payables from exchange transactions	22	7 073 226	3 553 092
Unspent conditional grants and receipts	20	25 663 940	10 283 013
		32 855 931	13 966 247
Non-Current Liabilities			
Other financial liabilities	19	82 276	94 644
Retirement benefit obligation	10	3 380 504	3 149 910
Provisions	21	2 561 299	-
		6 024 079	3 244 554
Total Liabilities		38 880 010	17 210 801
Net Assets		77 103 345	60 771 362
Net Assets			
Accumulated surplus		77 103 345	60 771 362

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Statement of Financial Performance

	Note(s)	2010	2009
Revenue			
Property rates	23	4 066 437	3 056 339
Service charges	24	1 043 711	2 192 470
Property rates - penalties imposed and collection charges		547 703	372 082
Interest received (trading)		41 511	19 408
Fines		153 526	19 816
Government grants & subsidies	25	39 223 183	20 212 600
Fees earned		1 371 171	361 341
Commissions received		345 177	281 612
Rental income		3 642 176	1 743 788
Sundry income		462 616	778 910
Interest received - investment		1 492 197	2 080 066
Total Revenue		52 389 408	31 118 432
Expenditure			
Employee related costs	28	13 993 713	10 972 899
Remuneration of councillors	29	2 777 437	2 727 281
Depreciation and amortisation	30	3 111 878	1 951 459
Collection costs		68 667	3 617
Repairs and maintenance		1 727 119	1 212 917
Contracted services		1 463 713	1 167 179
Grants and subsidies paid	32	44 520	42 000
General Expenses	27	13 088 068	12 911 466
Total Expenditure		36 275 115	30 988 818
loss on disposal of non-current assets held for sale		(192 934)	(45 520)
Surplus for the year		15 921 359	84 094

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Statement of Changes in Net Assets

	Share capital / contributions from owners	Capitalisation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2008	-	8 363 538	13 583 006	21 946 544
Changes in net assets				
Change in accounting policy	-	(8 363 538)	8 332 538	(31 000)
Prior year adjustment	-	-	(852 479)	(852 479)
Implementation of GRAP	-	-	39 624 203	39 624 203
Net income (expenses) recognised directly in net assets	-	(8 363 538)	47 104 262	38 740 724
Surplus for the year	-	-	84 094	84 094
Total recognised income and expenses for the year	-	(8 363 538)	47 188 356	38 824 818
Total changes	-	(8 363 538)	47 188 356	38 824 818
Balance at 01 July 2009	-	-	60 771 364	60 771 364
Changes in net assets				
Prior year adjustment	-	-	410 622	410 622
Net income (expenses) recognised directly in net assets	-	-	410 622	410 622
Surplus for the year	-	-	15 921 359	15 921 359
Total recognised income and expenses for the year	-	-	16 331 981	16 331 981
Total changes	-	-	16 331 981	16 331 981
Balance at 30 June 2010	-	-	77 103 345	77 103 345

Note(s)

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Cash Flow Statement

	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		10 305 030	7 231 793
Grants		54 604 110	17 742 226
Interest income		1 492 197	2 080 066
		66 401 337	27 054 085
Payments			
Employee costs		(16 771 150)	(13 617 002)
Suppliers		(11 740 924)	(10 666 495)
		(28 512 074)	(24 283 497)
Net cash flows from operating activities	33	37 889 263	2 770 588
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(18 808 867)	(5 721 885)
Proceeds from sale of property, plant and equipment	4	184 379	1 373 042
Purchase of other intangible assets	5	(9 554)	(14 920)
Proceeds from sale of financial assets		23 745	(118 389)
Net cash flows from investing activities		(18 610 297)	(4 482 152)
Cash flows from financing activities			
Repayment of other financial liabilities		(23 745)	(28 580)
Net cash flows from financing activities		(23 745)	(28 580)
Net increase/(decrease) in cash and cash equivalents		19 255 221	(1 740 144)
Cash and cash equivalents at the beginning of the year		24 108 511	25 848 655
Cash and cash equivalents at the end of the year	16	43 363 732	24 108 511

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the accounting Standards Board, are summarised as follows:

Standard	Title of Standard
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IFRS 3 (AC 140)	Business Combinations
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19 (AC 116)	Employee Benefits
IAS 32 (AC 125)	Financial Instruments: Presentation
IAS 36 (AC 128)	Impairment of Assets
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash Generating Assets
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 14	The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, as detailed above, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5, as issued by the Accounting Standards Board.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in surplus and deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as changes in technology and operational and financing cash flow.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 10.

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

The provision for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition. An impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured with reference to historical data and payment trend analysis per group of consumers.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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Accounting Policies

1.3 Property, plant and equipment (continued)

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Where Property, plant and equipment is carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Infinite
• Land	
Buildings	
• Dwelling	25 - 30
• Non Residential Dwelling	25 - 30
Infrastructure	
• Cemeteries	15 - 30
• Electricity	15 - 30
• Reservoirs - Water	20 - 40
• Roads	15 - 50
• Solid Waste Disposal	10 - 55
Heritage	
• Heritage assets	Infinite
Other asset	
• Furniture and Office equipment	5 - 15
• Computer Equipment	5 - 10
• Machinery and Equipment	5 - 15
• Motor Vehicles	7

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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Accounting Policies

1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting period.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

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Accounting Policies

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

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Accounting Policies

1.5 Financial instruments (continued)

Financial instruments designated as at fair value through profit and loss

The municipality hold shares in NCT Forestry Co-opt Limited due to their past forestry operations. These shares are held at cost and is not available for sale or transferable on the open market. Should the municipality member cease farming and wish to redeem the shares, this would be done at the annual meeting of members and the paid up value (cost) of the shares refunded to the member.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

The municipality recognises finance lease receivables on the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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1.7 Inventories (continued)

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Non-current assets held for sale (and) (disposal groups)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

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1.9 Impairment of cash-generating assets (continued)

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it

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1.9 Impairment of cash-generating assets (continued)

relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

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Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid

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1.11 Employee benefits (continued)

vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Council employees contribute to the Natal Joint Municipal Pension Fund. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Full actuarial valuations are performed annually. The last valuation was done on 31 March 2008.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the reporting date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the surplus and deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a

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Accounting Policies

1.11 Employee benefits (continued)

gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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Accounting Policies

1.12 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender.

Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 9 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.21 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Presentation of Currency

These annual financial statements are presented in South African Rand. Which is the functional currency of the municipality.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.24 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.25 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.27 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 is as follows:

Statement of financial position

Property, plant and equipment

Previously stated	-	96 960 416
Adjustment	-	(40 148 580)
	-	56 811 836

Loans redeemed and other capital receipts

Previously stated	-	90 649 657
Adjustment	-	(90 649 657)
	-	-

Accumulated depreciation

Adjustment	-	(7 995 817)
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Capital development fund

Previously stated	-	5 169 051
Adjustment	-	(5 169 051)
	-	-

Public improvement fund

Previously stated	-	3 833 883
Adjustment	-	(3 833 883)
	-	-

Post retirement benefit liability

Adjustment	-	3 149 910
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Operating leases

Adjustment	-	106 398
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Trade receivables from exchange transaction

Adjustment	-	1 613
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Opening retained earnings

Previously stated	-	12 512 093
Property, plant and equipment	-	(39 847 424)
Loans redeemed and other capital receipts	-	90 320 099
Accumulated depreciation	-	(7 995 817)
Capital development fund	-	4 498 658
Public improvement fund	-	3 833 883
Post retirement benefit liability	-	(2 787 289)
Operating lease liability	-	(66 832)
Rental paid in advance	-	1 467
	-	60 468 838

Notes to the Annual Financial Statements

2010 2009

2. Changes in accounting policy (continued)**Statement of financial performance****Interest expense**

Previously stated	-	615 951
Adjustment	-	(615 951)
	-	-

Contribution to CDF

Previously stated	-	384 000
Adjustment	-	(384 000)
	-	-

Rental of property

Previously stated	-	2 120
Adjustment	-	39 419
	-	41 539

Post retirement benefit expenditure

Adjustment	-	362 621
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Depreciation and impairments losses

Adjustment	-	1 951 459
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3. New standards and interpretations**3.1 Standards and interpretations effective and adopted in the current year**

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IFRS 7 (AC 144) Financial Instruments: Disclosures

The effective date of the standard is for years beginning on or after 01 January 2007.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance.

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires only prospective application of the Standard and only will apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no affect on initial adoption of Standard on GRAP 9.

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the entity would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the entity as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure inventories in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received approval from management to be issued to the executive authority or municipal council.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

An entity shall adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 16: Investment Property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure investment properties in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 17: Property, Plant and Equipment

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP17.

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire. Entities are also not required to measure classes of Property, Plant and Equipment in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

The Standard includes accounting for obligations to make additional contributions to a fund. This is similar to the requirements of IFRIC5 (AC438).

It further includes the accounting for the changes in existing decommissioning, restoration and similar liabilities. This is similar to the requirements of IFRIC1 (AC434).

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

service potential, or from settlement of the provisions without cost to the entity.

If an external valuation is used to measure a provision the information relating to the valuation can usefully be disclosed.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 100: Non-current Assets Held for Sale and Discontinued Operations

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. "Non-cash-generating assets" are assets other than cash-generating assets and "value in use of a non-cash-generating asset" is the present value of the asset's remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a subsidiary acquired exclusively with a view to resale.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standards of GRAP on Inventories, Investment Property, Property, Plant and Equipment, Agriculture and Intangible Assets until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 102: Intangible Assets

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination.

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non-cash-generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state "gains shall not be classified as revenue" as GRAP term "income" has a broader meaning than the term "revenue".

Directive 4 - Transitional provisions for medium and low capacity requires retrospective application of the Standard. Where entities have, on initial adoption of the Standard, accumulated and retained sufficient information about costs and the future economic benefits or service potential related to intangible assets that may have been expensed previously, those intangible assets should be recognised in accordance with the Standard. Entities are not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible Assets.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

IPSAS 21: Impairment of Non Cash-Generating Assets

The method of measurement of value in use of a non-cash-generating asset under this Standard is different to that applied to a cash generating asset.

Asset should be measured by reference to the present value of the remaining service potential of the asset.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset, may be the depreciated replacement cost approach, restoration cost approach and service units approach.

This Standard does not require entities to apply an impairment test to property, plant and equipment carried at revalued amounts.

This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

IPSAS 20: Related Party Disclosure

IPSAS 20 specifically excludes any consideration provided to key management personnel solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions in the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality;
- and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

GRAP 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

GRAP 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

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4. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	12 261 437	-	12 261 437	13 224 821	-	13 224 821
Buildings	21 375 855	(1 827 847)	19 548 008	11 991 484	(1 460 534)	10 530 950
Infrastructure	32 877 566	(7 317 034)	25 560 532	24 875 412	(5 396 052)	19 479 360
Heritage	128 080	-	128 080	128 080	-	128 080
Other assets	7 271 550	(3 094 003)	4 177 547	6 592 039	(2 874 414)	3 717 625
Total	73 914 488	(12 238 884)	61 675 604	56 811 836	(9 731 000)	47 080 836

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Assets under construction	Disposals	Classified as held for sale	Revaluations	Depreciation	Impairment loss	Total
Land	13 224 821	-	-	-	(963 384)	-	-	-	12 261 437
Buildings	10 530 950	1 464 210	7 920 161	-	-	-	(338 616)	(28 697)	19 548 008
Infrastructure	19 479 360	4 664 605	3 181 219	-	-	156 330	(998 847)	(922 135)	25 560 532
Heritage	128 080	-	-	-	-	-	-	-	128 080
Other assets	3 717 625	1 578 672	-	(273 835)	(194 243)	151 636	(802 125)	(183)	4 177 547
	47 080 836	7 707 487	11 101 380	(273 835)	(1 157 627)	307 966	(2 139 588)	(951 015)	61 675 604

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Assets under construction	Disposals	Implementation of GRAP	Depreciation	Total
Land	13 112 011	112 810	-	-	-	-	13 224 821
Buildings	9 903 559	136 868	1 957 804	-	(1 146 878)	(320 403)	10 530 950
Infrastructure	27 231 837	416 429	662 563	-	(7 895 782)	(935 687)	19 479 360
Heritage	57 880	70 200	-	-	-	-	128 080
Housing development fund	34 591 723	2 034 027	-	-	(36 625 750)	-	-
Other assets	6 169 615	331 184	-	(45 520)	(2 062 147)	(675 507)	3 717 625
	91 066 625	3 101 518	2 620 367	(45 520)	(47 730 557)	(1 931 597)	47 080 836

Notes to the Annual Financial Statements

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4. Property, plant and equipment (continued)**Transitional provisions****Property, plant and equipment recognised at provisional amounts**

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment with a carrying value of 61 675 604 (2009: 47 080 836) was recognised at provisional amounts.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	72 996	(46 180)	26 816	135 285	(95 925)	39 360

Reconciliation of intangible assets - 2010

	Opening Balance	Additions	Disposals	Amortisation	Total
Computer software, other	39 360	9 554	(820)	(21 278)	26 816

Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Implementation of GRAP	Amortisation	Total
Computer software, other	340 085	14 920	(295 782)	(19 863)	39 360

Transitional provisions**Intangible assets recognised at provisional amounts**

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain intangible assets with a carrying value of 26 816 (2009: 39 360) was recognised at provisional amounts.

6. Non-current assets held for sale

The municipality has resolved to dispose off redundant non-current assets. The non-current assets are to be sold piecemeal.

Transitional provision

In accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework, the municipality need not comply with the standard on Non-current Assets held for Sale and Discontinued Operations, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expire:

- Construction Contracts
- Inventories
- Investment Property
- Property Plant and Equipments
- Provisions, Contingent Liabilities and Contingent Assets
- Agriculture
- Intangible Assets

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

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7. Other financial assets

At fair value through surplus or deficit - designated

Unlisted shares	266	266
NCT Forestry Co-Operative Limited Richmond Local Municipality previously conducted farming and forestry functions, therefore they were required to be a member of the Forestry Co-opt. These shares held, are non-transferable and do not accrue interest nor dividends. Should the municipality wish to cease their membership, the original cost of the shares will be refunded to the municipality.		

Loans and receivables

Umgungundlovu District Municipality	94 643	118 388
The Richmond Local Municipality's water and sanitation services had been transferred to the district municipality during the transfer of functions and powers in the 2003/04 financial year. This transfer included a loan balance in favour DBSA relating to water and sanitation assets. Although the loan is in the name of Richmond Local Municipality, payments of this loan is made by the Umgungundlovu District Municipality.		

Total other financial assets

94 909	118 654
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Non-current assets

At fair value through surplus or deficit - designated	266	266
Loans and receivables	82 276	94 644
	82 542	94 910

Current assets

Loans and receivables	12 367	23 744
	94 909	118 654

Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2010 and 2009, as all the financial assets were disposed of at their redemption date.

Fair values of loans and receivables

Umgungundlovu District Municipality	94 644	118 388
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The fair value is determined by using the face value of the capital outstanding.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

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8. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2010

	Loans and receivables	Total
Trade and other receivables	7 672 064	7 672 064
Cash and cash equivalents	43 363 732	43 363 732
	51 035 796	51 035 796

2009

	Loans and receivables	Total
Trade and other receivables	6 234 021	6 234 021
Cash and cash equivalents	24 108 511	24 108 511
	30 342 532	30 342 532

9. Operating lease asset (accrual)

Vacant land is being leased from the Ingonyama Trust Board, on which community halls have been constructed by the Richmond Local Municipality. The lease period is 40 years with an escalation of 10% per annum. The lease rental over the contracted period is smoothed over the period of lease. The difference between the smoothed rental and the rental paid during the year is raised as an operating lease accrual/asset.

10. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes (Bonitas, Hosmed, Keyhealth, LA Health and SAMWU), most of which offer a range of options pertaining to levels of cover. The post employment Health care benefit actuarial valuation was conducted by ARCH Actuarial Consulting.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependents may continue membership of the medical scheme

Eligible In-service employees will receive a post-employment subsidy 60% of the contribution payable should they be a member of a medical scheme at retirement. All continuation members receive a 60% subsidy. Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

Movement in the defined benefit obligation:

Balance at the beginning of the year	3 149 910	2 787 289
Current-service cost	245 814	133 099
Interest cost	278 545	293 506
Contributions (benefits paid)	(91 632)	(81 852)
Actuarial loss/ (gain)	(202 133)	17 868
Balance at end of the year	3 380 504	3 149 910

Net expense recognised in the statement of financial performance

Current service cost	245 814	133 099
Interest cost	278 545	293 506
Actuarial (gains) losses	(202 133)	17 868
Benefit Payments	(91 632)	(81 852)
Total (Included in employee benefits expense) Note 28	230 594	362 621

Richmond Local Municipality

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10. Retirement benefits (continued)

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Average retirement age	63	63
Discount rates used	9.28 %	8.97 %
Health care cost inflation rate	7.35 %	7.69 %
Net effective discount rate	1.80 %	1.19 %
Continuation of membership at retirement	100.00 %	100.00 %
Proportion assumed married at retirement	100.00 %	100.00 %
Proportion of eligible non-members joining the scheme by retirement	50.00 %	50.00 %

Other assumptions:

Mortality during employment - In accordance with the SA 85-90 ultimate table

Mortality post-retirement - In accordance with the PA90-1 ultimate table

Percentage of in-service members withdrawing before retirement:

Age	Female	Male
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
>55	0%	0%

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

11. Inventories

Stationery	50 716	62 826
Fuel (Diesel, Petrol and Oil)	62 046	40 474
	112 762	103 300

Inventory is carried at the lower of cost or net replacement value.

12. Trade and other receivables from exchange transactions

Trade debtors	205 390	31 842

13. Other receivables from non-exchange transactions

Other debtors	2 442 812	2 459 665
Umgungundlovu District Municipality	739 941	1 074 780
Deposit	4 700	4 700
	3 187 453	3 539 145

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Richmond Local Municipality

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	2010	2009
Fair value of other receivables from non-exchange transactions		
Other receivables from non-exchange transactions	3 187 453	3 539 142
The fair value is determined by using the face value of the capital outstanding.		
Other receivables from non-exchange transactions impaired		
The amount of the provision was (263 184) as of 30 June 2010 (2009: (260 392)).		
14. VAT receivable		
VAT	1 879 841	297 477
Vat is payable on the receipts basis. Only once payment is received from debtors is vat paid over to South African Revenue Services.		
15. Consumer debtors		
Gross balances		
Rates	4 279 221	2 663 038
Refuse	1 440	4 231
	4 280 661	2 667 269
Less: Provision for bad debts		
Refuse	(1 440)	(4 231)
Net balance		
Rates	4 279 221	2 663 038
Rates		
Current (0 -30 days)	23 234	(117 646)
31 - 60 days	572 800	10 999
61 - 90 days	182 617	141 503
91 - 120 days	169 336	11 548
121 - 365 days	3 331 234	2 616 634
	4 279 221	2 663 038
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	38 618	(92 484)
31 - 60 days	81 476	(58 262)
61 - 90 days	66 756	(3 006)
91 - 120 days	55 509	5 931
121 - 365 days	1 191 533	1 634 235
	1 433 892	1 486 414
Industrial/ commercial		
Current (0 -30 days)	62 775	(32 766)
31 - 60 days	419 228	58 543
61 - 90 days	74 388	1 479
91 - 120 days	74 187	-
121 - 365 days	721 698	425 535
	1 352 276	452 791
National and provincial government		
Current (0 -30 days)	20 549	325
31 - 60 days	91 676	10 718

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
15. Consumer debtors (continued)		
61 - 90 days	82 899	143 030
91 - 120 days	82 899	5 617
121 - 365 days	1 237 425	568 377
	1 515 448	728 067
Less: Provision for debt impairment		
Current (0 -30 days)	(1 980)	7 279
31 - 60 days	(2 001)	-
61 - 90 days	(890)	-
91 - 120 days	(870)	-
121 - 365 days	4 301	(11 510)
	(1 440)	(4 231)
Reconciliation of bad debt provision		
Balance at beginning of the year	(4 231)	(4 231)
Reversal of provision	2 791	-
	(1 440)	(4 231)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of consumer debtors

Consumer debtors	4 279 221	2 663 038
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The fair value is determined by using the face value of the capital outstanding.

Consumer debtors impaired

As of 30 June 2010, consumer debtors of 1 440 (2009: 4 231) were impaired and provided for.

The amount of the provision was 1 440 as of 30 June 2010 (2009: 4 231).

16. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 200	1 200
Bank balances	12 615 370	475 039
Short-term deposits	30 746 162	23 632 272
	43 363 732	24 108 511

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
FNB - Call Account - Acc. no.: 61356002695	4 408 805	9 639 323	12 661 562	4 408 805	9 639 323	12 661 562
FNB - 32 day - Acc. No.: 74092537347	28 211	56 977	52 217	28 211	56 977	52 217
FNB - Call Account - Acc. no.: 62069911545	-	72 590	782 522	-	72 590	782 522
FNB - Call Account - Acc. No.: 62117170407	195 567	423 514	408 884	195 567	423 514	408 884
FNB - Call Account - Acc. no.: 62134473280	206 792	196 023	176 469	206 792	196 023	206 792

Richmond Local Municipality

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Notes to the Annual Financial Statements

					2010	2009
16. Cash and cash equivalents (continued)						
FNB - Call Account - Acc. no.: 62155682844	417 914	2 042 299	1 931 689	417 914	2 042 299	1 931 689
FNB - Call Account - Acc. no.: 62155684882	30 547	28 967	26 418	30 547	28 967	26 418
FNB - 32 day Call Account - Acc. no.: 62176174383	780 497	1 755 634	2 898 513	780 497	1 755 634	2 898 513
FNB - 32 day Call Account - Acc. no.: 62202088333	391 178	529 608	-	391 178	529 608	-
FNB - Call Account - Acc. no.: 62202088614	1 786 293	4 245 381	-	1 786 293	4 245 381	-
ABSA - 32 day Call Account - Acc. no.: 2066719815	-	2 484 065	3 278 448	-	2 484 065	3 278 448
ABSA - 32 day Call Account - Acc. no.: 2066719823	-	2 157 891	3 146 420	-	2 157 891	3 146 420
Standard Bank - 32 day Call Account - Acc. no.: 258544805	-	-	218 544	-	-	218 544
FNB - Call account Acc. no.: 62241817537	1 601 081	-	-	1 601 081	-	-
FNB - Call account Acc. no.: 62241817727	362 691	-	-	362 691	-	-
ABSA - 32 day Acc. no.: 2070322014	1 351 356	-	-	1 351 356	-	-
ABSA - 32 day Acc. no.: 20-7032-1898	824 170	-	-	824 170	-	-
ABSA - 32 day Acc. no.: 2070321961	8 361 060	-	-	8 361 060	-	-
ABSA - 32 days Acc. no.: 2070454318	10 000 000	-	-	10 000 000	-	-
Total	30 746 162	23 632 272	25 581 686	30 746 162	23 632 272	25 612 009

17. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2010

	Housing development fund	Total
Opening balance		
Interest earned	218 435 10 637	218 435 10 637
	229 072	229 072

Ring-fenced internal funds and reserves within accumulated surplus - 2009

	Housing development fund	Total
Opening balance		
Interest on Investments	205 419 17 554 (4 538)	205 419 17 554 (4 538)
Prior year adjustment		
	218 435	218 435

18. Housing development fund

Unappropriate surplus	225 690	218 435
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The housing development fund is represented by the following assets and liabilities

Trade and other receivables	1 243 865	235 400
Bank and cash	911 241	2 903 876
Assets	2 155 106	3 139 276

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

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	2010	2009
18. Housing development fund (continued)		
Trade and other payables	1 929 416	2 920 841
Total Housing Development Fund Assets and Liabilities	225 690	218 435

The housing development fund is cash backed and the funds is invested into a 32 day call deposit accounts. Part of the funding is included in the municipality's main account.

19. Other financial liabilities

Held at amortised cost		
DBSA	94 643	118 388
This loan relates to water and sanitation assets. The loan was transferred to the Umgungundlovu District Municipality together with the water and sanitation assets. The loan is in the name of Richmond Local Municipality, however the payments is made by the District municipality.		
Non-current liabilities		
At amortised cost	82 276	94 644
Current liabilities		
At amortised cost	12 367	23 744
	94 643	118 388

The fair value is determined by using the face value of the capital outstanding as determined by the financial institutions.

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Free Basic Electricity	1 180 107	2 120 977
Free Basic Services	-	94 316
Department of Environment Affairs	1 957	45 725
National Treasury	1 149 011	424 519
Vuna Awards	-	89 394
Department of Arts and Culture	-	114
Gijima	26 547	28 967
Department of Minerals and Energy	283 700	283 700
Department of Human Settlement	1 642 335	2 637 141
Municipal Infrastructure Grant	1 787 390	3 278 890
Department of Cooperative Governance and Traditional Affairs	879 723	1 279 270
Small Town Regeneration	18 713 170	-
	25 663 940	10 283 013

Movement during the year

Balance at the beginning of the year	10 283 013	12 845 123
Additions during the year	54 604 110	17 652 727
Income recognition during the year	(39 223 183)	(20 214 837)
	25 663 940	10 283 013

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

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20. Unspent conditional grants and receipts (continued)

These amounts are invested in a ring-fenced investment until utilised.

Refer to appendix F for further details on grant and subsidies.

21. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	GRAP Implementation	Total
Environmental rehabilitation	- 232 845		2 328 454	2 561 299

This is the first year the cost to rehabilitate the municipality's landfill site was assessed. The assessment was conducted by SSI Engineers & Environmental Consultants. The landfill site is expected to be fully operational until 2015 and it is assumed that rehabilitation will only take place thereafter.

22. Trade and other payables from exchange transactions

Trade payables	1 262 241	736 033
Umgungundlovu District Municipality	-	195 128
Leave provisions	802 964	586 482
Deposits received	22 576	20 167
Audit Fees	394 730	370 068
Retention	1 196 788	-
Sundry creditors	3 393 927	1 645 214
	7 073 226	3 553 092

The fair value is determined by using the face value of the capital outstanding.

23. Property Rates

Rates received

Residential	4 066 437	3 056 339
Property rates - penalties imposed and collection charges	4 066 437	3 056 339
	547 703	372 082
	4 614 140	3 428 421

Valuations

Residential	390 627 000	327 910 000
Commercial	127 512 000	892 684 000
Government and public entity	214 108 000	203 555 000
Municipal	59 163 000	-
Small holdings and farms	701 617 000	-
	1 493 027 000	1 424 149 000

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy. Pensioners were granted rebates according to a standard formula as contained in Council's approved Rates Policy.

Rates are levied monthly in ten (10) equal instalment payable on the 30 September 2009 with the final date for payment being 30 June 2010 (30 June 2009). Interest at 18% per annum (2009: 18%) and a collection fee of 10% (2009: 10%), is levied on rates outstanding as at 01 May 2010 for annual rates and 01 June 2010 for monthly rates.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

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23. Property Rates (continued)

The new general valuation will be implemented on 01 July 2009.

24. Service charges

Refuse removal	1 043 711	2 192 470
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25. Government grants and subsidies

Equitable share	16 165 537	9 229 120
Council support grant	763 000	641 000
Scholar patrol grant	31 801	32 505
Lotto	-	100 063
Financial management grant	1 478 607	725 473
MSIG	607 381	609 029
Municipal infrastructure grant	9 550 610	2 737 039
Municipal assistance programme	81 188	29 300
Free basic service	828 260	2 793 570
Free basic electricity	2 120 977	680 015
Public participation	-	12 488
Clean town	-	91 736
National lotto	-	497 235
Department of Human Settlement	2 742 798	2 034 027
Department of Cooperative Governance and Traditional Affairs	4 853 024	-
	39 223 183	20 212 600

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

In terms of council rates policy, an annual subsidy of 4 068, was received by qualifying applicants.

Free Basic Electricity

Balance unspent at beginning of year	2 120 977	1 496 521
Current-year receipts	-	1 304 471
Conditions met - transferred to revenue	(940 870)	(680 015)
	1 180 107	2 120 977

Conditions still to be met - remain liabilities (see note 20)

These are funds set aside by the municipality to subsidise future free basic electricity for qualifying indigents.

Free Basic Services

Balance unspent at beginning of year	94 316	982 006
Current-year receipts	828 260	1 905 880
Conditions met - transferred to revenue	(922 576)	(2 793 570)
	-	94 316

Conditions still to be met - remain liabilities (see note 20)

Department on Environmental Affairs

Balance unspent at beginning of year	45 725	45 725
Conditions met - transferred to revenue	(43 768)	-
	1 957	45 725

Conditions still to be met - remain liabilities (see note 20)

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

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2010	2009
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25. Government grants and subsidies (continued)

Funds to be used to purchase refuse recipitals to be place at strategic points in the Richmond CDB.

National Treasury

Balance unspent at beginning of year	424 519	908 627
Current-year receipts	3 235 000	985 000
Conditions met - transferred to revenue	(2 510 508)	(1 334 502)
Other	-	(134 606)
	1 149 011	424 519

Conditions still to be met - remain liabilities (see note 20)

These funds are to be used for the updating of the municipality's financial policies, financial management system and fixed asset register to comply with the new GRAP standards

The municipality has appointed services providers for some of the above projects and is the process of appointing service providers to assist with the outstanding projects.

Vuna Awards

Balance unspent at beginning of year	89 394	89 394
Conditions met - transferred to revenue	(89 394)	-
	-	89 394

Conditions still to be met - remain liabilities (see note 20)

Department of Arts and Culture

Balance unspent at beginning of year	114	3 411
Conditions met - transferred to revenue	(114)	(3 297)
	-	114

Conditions still to be met - remain liabilities (see note 20)

Gijima

Balance unspent at beginning of year	28 967	26 418
Conditions met - transferred to revenue	(3 751)	-
Other	1 331	2 549
	26 547	28 967

Conditions still to be met - remain liabilities (see note 20)

The funds will be utilised upon the finalisation of the closeout report by Gijima(DED).

Department of Minerals and Energy Affairs

Balance unspent at beginning of year	283 700	283 700
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Conditions still to be met - remain liabilities (see note 20)

Eskom is currently engaged to assist with the connection of electrical power supply to residential properties.

Department of Human Settlement

Balance unspent at beginning of year	2 637 141	4 162 359
Current-year receipts	1 586 960	-
Conditions met - transferred to revenue	(2 746 180)	(2 034 027)

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
25. Government grants and subsidies (continued)		
Other	164 414	508 809
	1 642 335	2 637 141

Conditions still to be met - remain liabilities (see note 20)

Housing projects are still work-in-progress. Funds will be fully utilised on the completion of these projects.

Municipal Infrastructure Grant

Balance unspent at beginning of year	3 278 890	3 337 929
Current-year receipts	11 338 000	2 678 000
Conditions met - transferred to revenue	(12 829 500)	(2 737 039)
	1 787 390	3 278 890

Conditions still to be met - remain liabilities (see note 20)

Projects are work-in-progress and covers a multi-fiscal year.

Department of Cooperative Governance and Traditional Affairs

Balance unspent at beginning of year	1 279 270	1 417 297
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(399 547)	(638 027)
	879 723	1 279 270

Conditions still to be met - remain liabilities (see note 20)

Waiting for the finalisation of projects as per business plans.

Small Town Regeneration

Current-year receipts	19 130 000	-
Conditions met - transferred to revenue	(473 637)	-
Other	56 807	-
	18 713 170	-

Conditions still to be met - remain liabilities (see note 20)

The projects have being advertised and the SCM process is still in progress.

26. Other income

Grant from District Municipality	69 041	-
Management fee	66 000	546 000
Impound - Motor Vehicles	3 800	17 495
Impound - Animals	20 221	20 816
Refuse dumping fees	923	938
Hall hire	30 807	-
Sundry Income	270 724	193 661
Rental of equipment	1 100	-
	462 616	778 910

Richmond Local Municipality

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Notes to the Annual Financial Statements

2010 2009

27. General expenses

Advertising	205 909	122 934
Auditors remuneration	377 316	390 554
Bank charges	43 986	54 263
Cleaning	37 483	18 568
Consulting and professional fees	48 222	87 244
Entertainment	18 759	10 193
Insurance	184 408	318 229
Conferences and seminars	9 622	15 442
Lease rentals on operating lease	741 477	411 651
Marketing	113 384	65 428
Motor vehicle expenses	45 386	30 225
Fuel and oil	537 088	507 014
Postage and courier	21 828	12 454
Printing and stationery	96 876	94 757
Promotions	14 165	11 272
Subscriptions and membership fees	9 525	5 490
Telephone and fax	242 750	148 077
Electricity	478 657	260 676
Tourism development	-	30 000
Government grant expenditure	8 708 340	9 858 861
Other expenses	1 152 887	458 134
	13 088 068	12 911 466

28. Employee related costs

Basic	7 632 110	5 220 686
Bonus	454 935	376 558
Medical aid - company contributions	615 641	462 242
UIF	82 478	62 260
WCA	99 187	82 565
SDL	108 492	84 021
Other payroll levies	-	613
Leave pay provision charge	991 437	841 031
Post-employment benefits - Pension - Defined contribution plan	230 594	362 621
Travel, motor car, accommodation, subsistence and other allowances	80 000	62 581
Overtime payments	397 302	420 364
Housing benefits and allowances	569 516	848 384
Other # 4	136 475	78 938
Other # 5	4 497	4 240
	11 402 664	8 907 104

Remuneration of Municipal Manager

Annual Remuneration	492 260	267 744
Car Allowance	119 000	81 000
Contributions to UIF, Medical and Pension Funds	44 482	142 296
	655 742	491 040

Remuneration of Chief Finance Officer

Annual Remuneration	410 456	144 000
Car Allowance	36 000	18 000
Contributions to UIF, Medical and Pension Funds	73 544	112 020
Acting allowance	-	108 269
	520 000	382 289

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010	2009

28. Employee related costs (continued)

Strategic Manager Corporate Services

Annual Remuneration	372 717	90 000
Car Allowance	15 000	31 000
Contributions to UIF, Medical and Pension Funds	20 090	107 262
Acting allowance	-	153 625
	407 807	381 887

Strategic Manager Community Services

Annual Remuneration	317 209	182 000
Car Allowance	96 000	33 500
Contributions to UIF, Medical and Pension Funds	74 291	217 474
	487 500	432 974

Strategic Manager Technical Services

Annual Remuneration	386 152	187 833
Car Allowance	36 000	21 000
Contributions to UIF, Medical and Pension Funds	97 848	60 503
Acting allowance	-	108 269
	520 000	377 605

29. Remuneration of Councillors

Mayor	544 358	519 122
Deputy Mayor	242 661	171 171
Mayoral Committee Members	228 161	160 473
Speaker	242 661	171 171
Councillors	1 519 596	1 705 344
	2 777 437	2 727 281

In-kind benefits

The Mayor is full-time and is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has one full-time bodyguard and a full time driver . The Deputy Mayor has one full-time bodyguard/driver.

The Mayor certifies that the councillor's allowance were in line to the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998).

30. Depreciation and amortisation

Property, plant and equipment	3 111 878	1 951 459
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31. Auditors' remuneration

Fees	377 316	390 554
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32. Grants and subsidies paid

Other subsidies

Museum subsidy	44 520	42 000
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The Richmond Byrne and District Museum, is managed and maintained by the Local Board of Trustees. Local historical

Notes to the Annual Financial Statements

2010	2009

32. Grants and subsidies paid (continued)

items and artifacts are on display at the museum. This attracts local and foreign tourist. The grant is to assist with the day-to-day operations of the museum.

33. Cash generated from operations

Surplus	15 921 359	84 094
Adjustments for:		
Depreciation and amortisation	3 111 878	1 951 459
Gain on sale of non-current assets and disposal groups	192 934	45 520
Movements in operating lease assets and accruals	-	106 398
Actuarial gains/losses	230 594	3 149 910
Provision for rehabilitation	2 561 299	-
Changes in working capital:		
Inventories	(9 462)	109 484
Trade and other receivables from exchange transactions	(173 548)	447 069
Other receivables from non-exchange transactions	351 692	(1 050 294)
Consumer debtors	(1 616 183)	(872 366)
Trade and other payables from exchange transactions	3 520 137	1 248 962
VAT	(1 582 364)	25 181
Unspent conditional grants and receipts	15 380 927	(2 474 829)
	37 889 263	2 770 588

34. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	3 372 709	6 139 334
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The municipality currently has four housing projects in progress, namely Siyathuthuka Phase 1 and Phase 2, Zwelethu, Patheni Housing and projects financed from the Municipal Infrastructure Grant.

This committed expenditure relates to plant and equipment and will be financed by grants and subsidies received from National and Provincial Government.

Operating leases – as lessee (expense)

Minimum lease payments due

- within one year	158 440	298 535
- in second to fifth year inclusive	28 992	203 595
- later than five years	1 718 910	1 727 225
	1 906 342	2 229 355

Operating lease payments represent rentals payable by the municipality for certain of its Land, office equipment and motor vehicles. Leases for motor vehicle and office equipment are negotiated for an average term of four years and rentals are fixed for the full term of the lease. Land is negotiated for a term of 40 years with an escalation of 10%. Contingent rent is payable based on number of copies made and excess mileage..

Operating leases – as lessor (income)

The municipality leased vacant land to a property developer whom has developed a shopping complex. The lease agreement has a term of 70 years. There are no contingent rents receivable. Due to the financial difficulties experienced by the lessee, the lease rental was renegotiated by the lessee and the municipality. The municipality has granted the lessee a relief period of 12 to 24 months to pay an agreed lower rental, linked to turnover. Thereafter, the terms and conditions of the original agreements will apply. Due to the changes of the original agreement and economic activities in Richmond town, rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Notes to the Annual Financial Statements

2010

2009

35. Contingencies

Council provided letters of suretyship to financial institutions to assist staff members to obtain home loans. These sureties were provided prior to the introduction of the Municipal Finance Management Act. The sureties ensure that the municipality complies with section 164 (2) of the Municipal Finance Management Act.

These amounts have been secured against the staff member's pension/provident funds by means of written agreements which are lodged with the Kwa-Zulu Natal Joint Municipal Pension/Provident Fund. Copies are maintained on the Staff members personal files.

Name of staff member

BV Rajoo	10 000	10 000
BG Kunene	12 000	12 000
	22 000	22 000

36. Prior period errors

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Inventory	3 378	-
Opening Accumulated Surplus or Deficit	(3 378)	-

Statement of financial performance

Electricity	108 032	-
Workman's compensation	9 908	-
Landfill site	5 539	-
Training	4 108	-

37. Risk management**Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010	2009
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37. Risk management (continued)

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Financial assets exposed to credit risk at year end were as follows:

38. Going concern

We draw attention to the fact that at 30 June 2010, the municipality had accumulated surplus of 77 103 345 and that the municipality's total assets exceed its liabilities by 77 103 345.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Events after the reporting date

There is no matters or events arising after the reporting date:

40. Fruitless and wasteful expenditure

Legal fees	-	10 339
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The fruitless and wasteful expenditure incurred as a result of the Municipality not complying with a court order in 2007/08 was recovered in July 2009. There are no other incidents of fruitless and wasteful expenditure to report on in 2009/10 that we are aware of.

41. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	15 921 359	-
Adjusted for:		
Gain on the sale of assets	535 934	-
decrease in provisions	(250 807)	-
Decrease in Revenue	6 833 953	-
Decrease in Expenditure	(797 747)	-
Net surplus per approved budget	22 242 692	-

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	57 536	57 536
Amount paid - current year	(57 536)	(57 536)

Balance unpaid (Included in creditors)

-	-
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Audit fees

Current year fee	352 654	327 878
Amount paid - current year	(352 654)	(327 878)

Balance unpaid (Included in creditors)

-	-
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Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010 2009

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Current year subscription / fee	1 969 763	1 455 695
Amount paid - current year	(1 969 763)	(1 455 695)
Balance unpaid (Included in creditors)	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	3 264 860	873 112
Amount paid - current year	(3 264 860)	(873 112)
Balance unpaid (Included in creditors)	-	-

VAT

VAT receivable	1 879 841	297 477
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident

Catering	2 280	-
Repairs to Plant and Equipment	35 406	-
Upgrade of the Municipal Financial System (GRAP Compliant)	513 301	-
Hire of sound equipment	2 500	-
Maintenance of speed timing device	2 280	-
Upgrading of road infrastructure	34 707	-
Repairs to motor vehicles	78 871	-
Training	3 489	-
Protection Services Uniforms	26 173	-
	699 007	-

43. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

44. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

45. Statement of comparative and actual information

2010

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	4 035 000	4 035 000		4 035 000	4 614 140		(579 140)	114 %	114 %
Service charges	1 050 360	1 050 360		1 050 360	1 043 711		6 649	99 %	99 %
Investment revenue	2 340 000	1 440 000		1 440 000	1 492 197		(52 197)	104 %	64 %
Transfers recognised - operational	29 099 000	47 399 172		47 399 172	39 223 183		8 175 989	83 %	135 %
Other own revenue	4 846 170	5 690 870		5 690 870	6 016 177		(325 307)	106 %	124 %
Total revenue (excluding capital transfers and contributions)	41 370 530	59 615 402		59 615 402	52 389 408		7 225 994	88 %	127 %
Employee costs	(14 584 058)	(14 373 427)	(18 700)	(14 392 127)	(13 993 713)	-	(398 414)	97 %	96 %
Remuneration of councillors	(3 070 900)	(2 915 979)	-	(2 915 979)	(2 777 437)	-	(138 542)	95 %	90 %
Depreciation and asset impairment	(2 798 036)	(3 362 685)		(3 362 685)	(3 111 878)	-	(250 807)	93 %	111 %
Transfers and grants	(1 867 000)	(8 236 542)	-	(8 236 542)	(44 520)	-	(8 192 022)	1 %	2 %
Other expenditure	(8 925 401)	(8 484 077)	18 700	(8 465 377)	(16 540 501)	-	8 075 124	195 %	185 %
Total expenditure	(31 245 395)	(37 372 710)	-	(37 372 710)	(36 468 049)	-	(904 661)	98 %	117 %
Surplus/(Deficit)	10 125 135	22 242 692		22 242 692	15 921 359		6 321 333	72 %	157 %

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	(10 125 000)	(22 233 890)		(22 233 890)	-		(22 233 890)	- %	- %
Surplus (Deficit) after capital transfers and contributions	135	8 802		8 802	15 921 359		(15 912 557)	180 883 %	11 793 599 %
Surplus/(Deficit) for the year	135	8 802		8 802	15 921 359		(15 912 557)	180 883 %	11 793 599 %

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Sources of capital funds									
Transfers recognised - capital	(10 125 000)	(22 233 890)		(22 233 890)	(17 548 008)		(4 685 882)	79 %	173 %
Internally generated funds	(1 347 000)	(1 681 173)		(1 681 173)	(1 568 824)		(112 349)	93 %	116 %
Total sources of capital funds	(11 472 000)	(23 915 063)		(23 915 063)	(19 116 832)		(4 798 231)	80 %	167 %
Cash flows									
Net cash from (used) operating	14 681 096	32 925 968		32 925 968	37 889 263		(4 963 295)	115 %	258 %
Net cash from (used) investing	(13 544 720)	(31 789 592)		(31 789 592)	(18 610 297)		(13 179 295)	59 %	137 %
Net cash from (used) financing	-	-		-	(23 745)		23 745	DIV/0 %	DIV/0 %
Cash/cash equivalents at the year end	1 136 376	1 136 376		1 136 376	19 255 221		(18 118 845)	1 694 %	1 694 %

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Appendix A: Schedule of external loans

APPENDIX A

GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

	Loan Number	Redeemable	Balance at 30 June 2009	Received during the period	Redeemed written off during the period	Balance at 30 June 2010	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
DEVELOPMENT BANK OF SOUTH AFRICA								
DBSA (8.80%)	25765		30/06/2014	118 388	-	23 744	94 644	-
				<u>118 388</u>	<u>-</u>	<u>23 744</u>	<u>94 644</u>	<u>-</u>

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix B: Analysis of Property, plant and equipment

GOVERNMENT TEMPLATE: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

Cost/Revaluation	Accumulated Depreciation
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	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Current depreciation/impairment loss	Disposals	Closing Balance	Carrying Value	Budget Additions
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Land											
Land	13 224 821	-	-	-	13 224 821	-	-	-	-	13 224 821	-
	13 224 821	-	-	-	13 224 821	-	-	-	-	13 224 821	-
Buildings											
Dwelling	217 295	-	-	-	217 295	38 240	7 711	-	45 951	171 344	-
Non residential dwellings	11 774 189	-	9 384 371	-	21 158 560	1 422 295	359 602	-	1 781 897	19 376 663	9 997 337
	11 991 484	-	9 384 371	-	21 375 855	1 460 535	367 313	-	1 827 848	19 548 007	9 997 337
Infrastructure											
Cemeteries	4 608	-	-	-	4 608	934	154	-	1 088	3 520	-
Electricity	734 114	-	-	-	734 114	493 487	48 941	-	542 428	191 686	-
Reservoirs - water	80 032	-	-	-	80 032	13 655	1 601	-	15 256	64 776	-
Roads	23 890 254	-	5 517 370	-	29 407 624	4 864 910	1 855 436	-	6 720 346	22 687 278	4 401 059
Solid waste disposal	166 404	2 484 784	-	-	2 651 188	23 065	14 850	-	37 915	2 613 273	-
	24 875 412	2 484 784	5 517 370	-	32 877 566	5 396 051	1 920 982	-	7 317 033	25 560 533	4 401 059

APPENDIX B for the period ended 30 June 2010

	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Current depreciation/Impairment loss	Disposals	Closing Balance	Carrying Value	Budget Additions
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Heritage assets											
Heritage assets	128 080	-	-	-	128 080	-	-	-	-	128 080	-
	128 080	-	-	-	128 080	-	-	-	-	128 080	-
Other property, plant and equipment											
Furniture & office equipment	1 149 233	52 866	-	9 453	1 192 646	535 765	164 484	5 164	695 085	497 561	46 670
Computer equipment	891 407	141 495	-	129 805	903 097	475 469	141 055	110 105	506 419	396 678	139 480
Machinery & equipment	3 140 359	450 969	-	275 014	3 316 314	1 115 593	275 718	188 863	1 202 448	2 113 866	72 446
Motor vehicles	1 411 039	1 084 977	-	442 283	2 053 733	747 588	221 047	278 586	690 049	1 363 684	1 319 127
	6 592 038	1 730 307	-	856 555	7 465 790	2 874 415	802 304	582 718	3 094 001	4 371 789	1 577 723
Total	56 811 835	4 215 091	14 901 741	856 555	75 072 112	9 731 001	3 090 599	582 718	12 238 882	62 833 230	15 976 119

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix C: Segmental analysis of Property, plant and equipment

GOVERNMENT TEMPLATE: SEGMENTAL ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Opening Balance Rand	Additions Rand	Under Construction Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Carrying Value Rand
Community & social services	10 121 754	111 943	9 222 539	34 482	19 421 754	1 773 495	453 148	10 592	2 216 051	17 205 703
Executive & council	483 659	45 003	-	79 519	449 143	202 906	53 267	74 694	181 479	267 664
Finance Services	14 069 970	89 707	161 833	72 356	14 249 154	419 740	127 991	72 218	475 513	13 773 641
Public safety	849 874	41 061	-	12 108	878 827	387 029	117 897	11 184	493 742	385 085
Road Transport	24 624 367	-	5 517 370	-	30 141 737	5 358 398	1 904 377	-	7 262 775	22 878 962
Sport and recreation	2 359 517	35 053	-	63 312	2 331 258	142 112	41 240	50 107	133 245	2 198 013
Technical services	3 994 953	1 407 541	-	592 758	4 809 736	1 394 693	379 314	361 904	1 412 103	3 397 633
Waste management	307 741	2 484 783	-	2 019	2 790 505	52 630	13 365	2 019	63 976	2 726 529
	-	-	-	-	-	-	-	-	-	-
	56 811 835	4 215 091	14 901 742	856 554	75 072 114	9 731 003	3 090 599	582 718	12 238 884	62 833 230

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix D: Segmental Statement of Financial Performance

APPENDIX D for the period ended 30 June 2010

GOVERNMENT TEMPLATE: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Current year 2010	Prior Year # 1 2009		
Act. Bal. R'000	Bud. Amt R'000	Act. Bal. R'000	Act. Bal. R'000

Revenue

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

GOVERNMENT TEMPLATE: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2010

	Additions	Under Construction	Closing Balance	Budget	Variance	Variance	Explanation of Significant Variances greater than 5% versus Budget
	Rand	Rand	Rand	Rand	Rand	%	
Buildings							
Non Residential Dwellings	-	9 384 371	9 384 371	9 997 337	(612 966)		(7) Some projects that year marked for the 09/10 financial year was reviewed and council taken the decision to postpone these projects to the 10/11.
	-	9 384 371	9 384 371	9 997 337	(612 966)	(7)	-
Infrastructure							
Roads	-	5 517 370	5 517 370	4 401 059	1 116 311		20 Municipality had started work on projects that was planned for the 2010/11 financial year.
Solid waste disposal	2 484 784	-	2 484 784	-	2 484 784		100 These represents assets that were identified during the implementation of the GRAP standards..
	2 484 784	5 517 370	8 002 154	4 401 059	3 601 095	45	-

	Additions	Under Construction	Closing Balance	Budget	Variance	Variance	Explanation of Significant Variances greater than 5% versus Budget
	Rand	Rand	Rand	Rand	Rand	%	
Community							
Other property, plant and equipment							
Furniture and Office Equipment	52 866	-	52 866	44 670	8 196	16	Funds were provided by the District Municipality to provide public viewing areas during the world cup. These items were not provided in the municipality's budget.
Motor vehicles	1 084 977	-	1 084 977	1 020 984	63 993	6	These represents assets that were identified during the implementation of the GRAP standards
Computer equipment	141 495	-	141 495	139 480	2 015	1	
Machinery and equipment	450 969	-	450 969	370 589	80 380	18	These represents assets that were identified during the implementation of the GRAP standards
	1 730 307	-	1 730 307	1 575 723	154 584	9	-
Total	4 215 091	14 901 741	19 116 832	15 974 119	3 142 713	16	-

Richmond Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix F: Disclosure of Grants and subsidies in terms of the Municipal Finance Management Act

APPENDIX F for the ended 30 June 2010

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

June 2010

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Yes/ No		
Financial Management Grant	National Treasury	1 000 000	-	1 500 000	-	-	91 036	428 700	958 870	-	-	-	-	-	Yes	
Municipal System Improvement Grant	National Treasury	735 000	-	-	-	27 571	81 953	30 247	467 611	-	-	-	-	-	Yes	
Municipal Infrastructure Grant	National Treasury	-	-	9 759 000	1 579 000	-	-	7 450	9 543 161	-	-	-	-	-	Yes	
Small Town Regeneration Grant	Cogta(KZN)	-	-	8 830 000	10 300 000	-	-	-	596 100	-	-	-	-	-	Yes	
		1 735 000	-	20 089 000	11 879 000	27 571	172 989	466 397	11 565 742	-	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.